

The Mortgage Bankers Association of Kentucky has serious concerns over the current proposed definition of a Qualified Residential Mortgage. The Association believes the requirement of a 20% equity investment on the part of the borrower is onerous and will have a deleterious effect on a housing market which is struggling to find a recovery.

While we acknowledge loans sold to GNMA, FNMA and FHLMC will be exempt from the QRM requirements, the Association also has legitimate fears that Fannie Mae and Freddie Mac will be, at best, significantly smaller actors in the market place to being completely eliminated from the space. Without the Government Sponsored Enterprises, we believe the mortgage market will suffer from a liquidity crisis and interest rates will rise significantly and the availability of credit will be significantly diminished. Few institutions in the market today could engender the confidence in the secondary market the GSEs have provided.

Subsequently if the 20% requirement remains in place for QRM, lenders will be faced with the choice of not lending to borrowers with less than 20% equity investment, or to deploy capital into risk retention reserves which will limit our overall ability to lend and will limit the return on investment we can receive from our capital. Obviously, this will have a significant impact on homeowners and potential buyers who are low and moderate income as they have less disposable income for savings.

Finally, there have been numerous reviews of existing portfolios which demonstrate that increasing down payment requirements reduces default rates by less than 2%. However, the increase in the down payment requirements eliminate 20% or more potential mortgagors. It is our hope, as regulators, you will balance the need for risk retention with the needs of the very fragile housing and mortgage market. While homeownership is not appropriate for all Americans, it is still an important part of the American Dream. These proposals will shut the door on millions of Americans from accessing this part of the American Dream.